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ABSTRACT

This report argues, using Arizona as an illustration, for a market-based school funding paradigm characterized by per-pupil allocations that follow each student to the school of their choice. The report explains what is wrong with the current system, compares the market-based approach to others that have been proposed, and demonstrates how per-pupil funding works in the real world. It argues that the absence of a link between school facilities and educational quality has led to undisciplined costs that will ultimately lead to unsustainable debt. The debate over standards should focus on dollars, not facilities, with the role of the state being as fund provider and letting public school officials to make decisions about facilities. It suggests that the best way to establish the per-pupil dollar standard is to determine how much funding it takes to entice private providers of public education to enter the market. It argues that this dollar amount would allow the vast majority of existing school districts to build new facilities and renovate old ones on a pay-as-you-go basis. Finally, it suggests that public schools should be allowed to seek funding beyond the state provided amount on a voluntary basis. (GR)

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School Funding

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Executive Summary

Several years ago we started advocating market-based education finance reform characterized by a specific amount of money following each child to the school of his or her choice. Most people believed we were tilting at windmills. In fact, some believe we still are. We think the time has come.

We recognize that ours is not the plan currently on the table. We believe, however that Arizona's new framework for public education, which allows open entry for public school operators, will render any plan that is not based on per-pupil allocations moot within a couple of years. The purpose of this report is to demonstrate that we could move to a per-pupil system immediately and save ourselves the hassle of adopting an interim measure.

The first part of the report explains what is wrong with the current system. The next section compares our approach to others that have been proposed. The final section demonstrates how per-pupil funding works in the real world. The report's main points are as follows:

- The fundamental problem with today's method of funding school construction, which relies on locally assessed property tax, is that it provides little if any link between a school district's ability to build school facilities and the quality of education it provides. The absence of a link between school facilities and educational quality has led to undisciplined costs that will ultimately lead to unsustainable debt.

- The framework for public education today is completely different than it was just a few years ago. Now, school districts are not the only providers of public education. Because of charter schools, in the future most new public schools will not be built by school districts. This new framework lends itself to child-centered funding.

- The debate over standards should focus on dollars, not facilities. Since there are myriad physical arrangements under which students can achieve the state's academic standards, the role of the state should be to provide an adequate dollar amount, and then allow public school operators to make decisions about facilities. We believe that the court would accept a dollar standard as long as it is a defensible rationale.

- The most sensible way to establish a per-pupil dollar standard is to determine how much funding it takes to entice private providers of public education to enter Arizona's market. By surveying the capital requirements of private operators of public schools, we arrived at the figure of $650.

- Even though school districts spend more than charter operators, a per-pupil amount of $650 would allow the vast majority of existing school districts to build new facilities and renovate old ones, on a pay-as-you-go basis.

- Even Gilbert, the poster-child for high growth districts, would get along just fine. Only 20 very small districts with less than 2 percent of the state's students would require additional state assistance. In fact, if charter schools continue to grow in size and number, it is likely that the state would not have to provide additional assistance to any district.

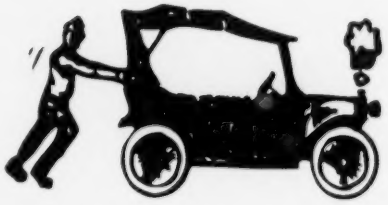
- Public schools should be able to seek funding "above and beyond" the state-provided amount, but it should be done on a voluntary basis. Because school districts are no longer the sole proxy for the expression of local control, they should not be allowed to levy taxes.

- Deregulation and decentralization are the wave of the future. We suggest that it's time we get used to it.

Child-Centered School Funding

Introduction

It's Broke, And We've Got To Fix It



In 1994, Arizona's Supreme Court ruled that the manner in which public school construction is funded is inconsistent with the state's constitutional requirement of a "general and uniform" school system. Like nearly every other state in the country, public school construction is financed through a locally-assessed property tax. Because property values vary greatly from school district to school district, both the amount of money that can be raised for schools, and the tax burden required, vary greatly as well. Four years and two legislative attempts later, we're still in the same situation. This time, however, the court has set a firm date (July 1, 1998) for a resolution of the problem.

The authors of this report believe that it is time for a fundamental shift in how we finance public education in Arizona, not only because the Supreme Court says that we must, but because the system we have today is no longer compatible with the principles of choice, competition, and free markets. The current crisis actually provides an opportunity for us to effect fundamental educational reform.

Out With the Old, In With the New

Most plans that have been floated thus far to deal with the Supreme Court ruling assume that the structure of public education will be the same ten years from now as it was ten years ago. It will not. In fact, the structure of public education today in Arizona is much different than it was just three years ago. Before the advent of charter schools, government was the sole provider of public education. Now, because the private sector can build and operate charter schools, government is no longer the sole provider of public education. Government is now a purchaser of educational services. Any serious attempt to solve the school finance problem must take into account that we have entered a new era in public education.

The Case for Child-Centered Funding

Once we come to terms with public education's new structure, we need to adopt a school finance system that will allow this structure to work. This new system cannot be centered around school districts, for school districts are not the only entities which build and

operate public schools. In a similar vein, this system of school finance cannot be centered around individual schools because individual schools often operate as part of a larger system, such as a charter or a school district. The only way to finance public education in a manner consistent with public education's new structure is to tie all funding to individual students. This approach puts the child, rather than the system itself, at the center.

An effective and efficient school finance structure should, by its very nature, raise the quality of public education and discipline its spending on behalf of the taxpayer. This can only be accomplished through choice and competition, which can only come when all funding is attached to the child. With child-centered funding, students are more valuable to schools than property is to school districts.

Where We Are Today

If You Can Bond It, Build It!

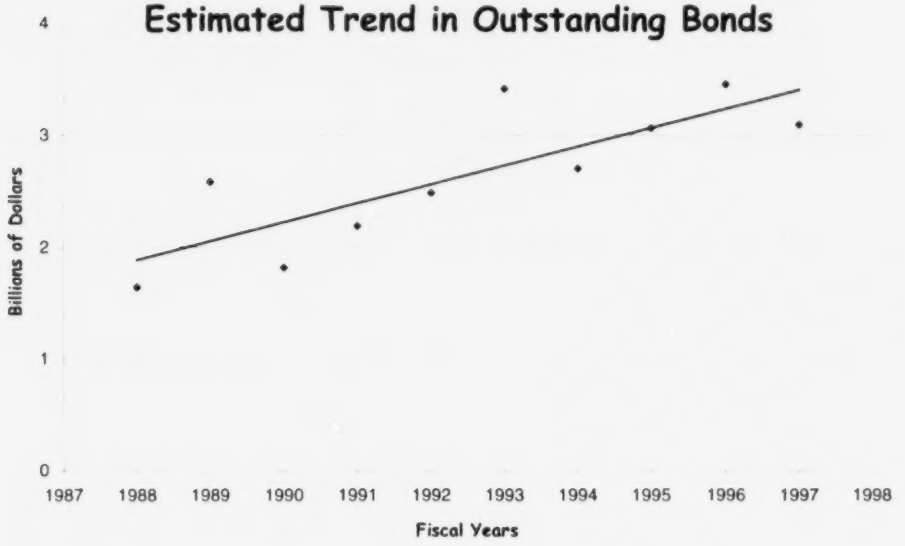
We often hear that 80 percent of Arizona's school districts have "no trouble at all" raising school construction funding. Consequently, we are told that all efforts to fix school finance should be focused on those districts with insufficient property wealth. We have a different viewpoint. It is true that most school districts in Arizona have "no trouble at all" issuing bonds for school construction. In fact, we have a domed football stadium and a growing number of $40 million high schools to prove it. The maxim that governs school construction is "*if you can bond it, build it!*"

This is not a healthy situation. It *should not* be easy for *any* district to borrow money to finance school construction. Just like the potential homeowner who must convince a lender of his or her future earning potential or the business person who must convince the bank that his business will prosper, public school operators should have to convince lenders that they can educate children. This becomes particularly relevant as competition for students increases.

Voting to Tax Someone Else

The "*if you can bond it, build it*" mentality is largely the result of Arizona's assessment ratio for secondary property tax. Businesses in Arizona are taxed at 2 ½ times the rate of homeowners. Thus, in effect, those with a disproportionately large vote (homeowners and renters) vote to tax those with a disproportionately small vote (business owners). Taxation with under-representation, when combined with the efforts by school districts to discourage large-scale voter participation and the practice of holding elections at times other than general election day, ensures that failed bond elections are about as common as snow in July.

Ten years ago the debt per student was $2,997. Today it's $4,155 per student. Over the past 10 years, the amount paid to service the debt on school construction statewide has climbed to nearly $500 million a year. As the following graph indicates, if we extend the current trend over the next ten years, there will be approximately $5.8 billion in outstanding bonds by the year 2008. This path is clearly unsustainable.



Local Control, R.I.P.

Back in what is sometimes referred to as the "golden age" of local control, school districts were a reflection of the communities that created them. Because of urbanization, the concept of "local school districts," while still used rhetorically, is largely a myth. As economist Milton Friedman is fond of pointing out, there were once more than 150,000 public school districts nationwide. Today there are only 15,000. That figure actually masks tne fact that more than half of the nation's school children are educated in less than five percent of these districts. Similar centralization has occurred here in Arizona, where roughly 17 percent of the state's students are educated in just two of the state's 227 districts.

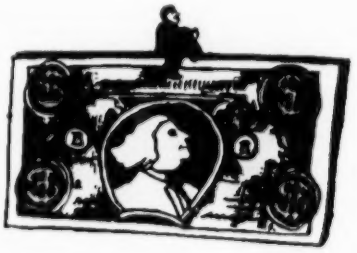
Not only does the rhetoric of "local school districts" ring hollow, the concept of "local control" has become equally contrived. It used to be that because nearly all funding for public education was raised and dispersed locally, virtually all control and accountability resided locally as well. For more than a decade now, the amount of money school districts spend on day-to-day operations has been controlled by the state. With the centralization of funding has come a centralization of decision making. Consequently, the ability of parents to exercise meaningful influence on their public schools has been significantly diminished.

The Disconnect Between Funding and Educational Quality

Those who regularly attend school district governing board meetings soon realize an inordinate amount of time is spent on capital issues as opposed to what goes on in the classroom. Discussions of reading and writing are far less common than debates over bricks and mortar. Because the monopoly structure has shielded school districts from competition, their ability to raise money to build new schools bears little, if any, relationship to the quality of education they provide.

Public Education's New Era

The Resurrection of Local Control



It is popular to say that whatever we do with school finance, we must "preserve local control." We maintain that local control is largely dead today, and that if we want it, we're going to have to resurrect it. Local control in the future will look quite different than local control in the past. In the past, parents exercised local control as voters by electing school board members, approving budgets and authorizing bond issues. In the future, parents will exercise local control as consumers by choosing where to enroll their children. Since real markets usually operate more efficiently than political markets, the change is probably for the better.

Local control was once characterized by large decisions made by local communities at the ballot box. Where do we build a new school? Whom do we elect to the school board? Should we approve the district's latest technology plan? Local control in the future will be characterized by small decisions made by individual consumers in their own home. Where should I enroll my child? What type of curriculum is best suited to her needs? What kind of school environment will cultivate her talents and abilities? Small decisions will, through market mechanisms, determine large events like when and how to build schools.

The Emergence of Charter Schools

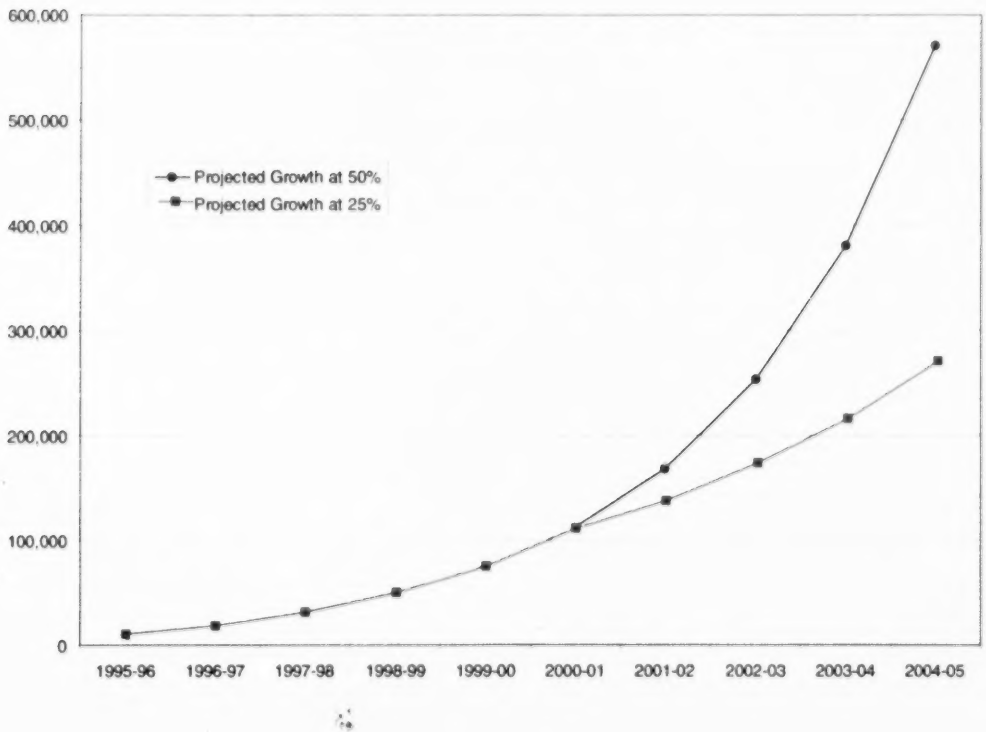
In 1994, the State Legislature passed landmark legislation allowing for open enrollment and charter schools. Open enrollment allows parents to enroll their children in any school district, provided there is space. The charter school legislation allowed the private sector to build and operate public schools. The impact of open enrollment has been minimal, largely because most desirable public schools operate at or near capacity and there is no incentive to remedy this. On the other hand, charter schools are literally changing the face of public education in Arizona.

More than 175 charters have been awarded. Since many charter school operators operate more than one school under the same charter, nearly 250 charter school campuses are currently in operation statewide. To put charter school growth in perspective, one out of every six public schools in Arizona is now a charter school. Within two years, that ratio is likely to be one-in-four.

Although charter schools currently tend to be much smaller than their traditional public school counterparts, if the current trend continues, charter schools will educate more than ten percent of Arizona's students within just a few years. While this might not seem significant on its face, the ramifications are enormous. Within three to five years, charter school enrollment will likely be growing faster than overall student growth statewide (student growth last year was about 25,000). What this means is that school districts won't need to build many new schools to accommodate growth.

As the graph demonstrates, Arizona's charter school population grew by approximately 100 percent in each of the past three years. Based on three-year plans submitted by each charter school, the population is projected to grow by 50 percent each year for 1998 – 2001. Figures for 2001-04 are projected based on 25 and 50 percent growth rates. By the year 2000, the charter school population will grow annually by more than 35,000 students, which will be approximately the number of new students in the state.

CHARTER SCHOOL STUDENT GROWTH



A Child-Centered School Finance Plan

What Does Child-Centered Mean?

The ultimate Child-Centered School Finance Plan would provide a single dollar amount representing both operations and capital funding that would follow the child when selecting the school of his or her choice. It is a rare private school indeed that sends out separate tuition bills for operation and building costs. This single dollar amount would be adjusted only with applicable special education weights. There are currently significant differences in operations funding owing to such issues as desegregation, teacher experience index, school size, etc., which should be examined at some point, but we will not address them here.

The plan that we offer deals only with what is now referred to as "capital funding." Under the plan presented here, funding that is currently raised locally for capital construction and maintenance would be replaced with a per-pupil allocation from the state's general fund. The secondary property tax would be phased out as current debts are paid. This means that going forward, school districts could not levy a secondary property tax for the purpose of school construction and maintenance. Instead, when public school operators (be they district or charter) need to build new facilities or renovate old ones, they would use their per-pupil allocation from the state to do so. In an event where the per-pupil allocation doesn't create sufficient cash flow for projects of immediate need, public school operators could borrow against the revenue stream.

There Are Standards, and There Are Standards

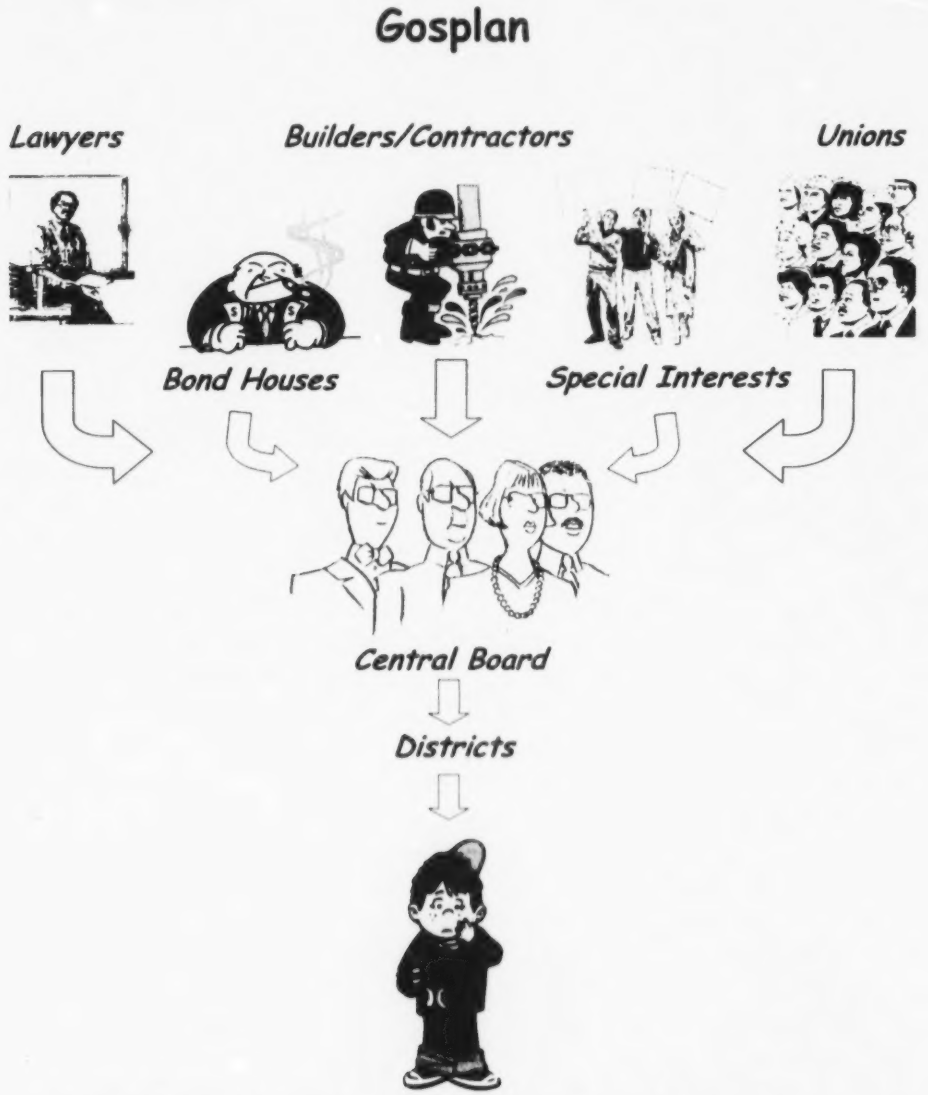
Before settling on an appropriate dollar amount for capital, we must address the "standards" debate. Recently, the State Board of Education adopted academic standards in most content areas, including reading, writing and math. In the latest Supreme Court ruling, the attainment of the academic standards was tied to adequate capital funding.

There are two ways to approach the standards issue. One approach is to centralize decision making in terms of who constructs school facilities, when the facilities are constructed, and what the facilities look like once they are built. Under this approach, a central board would invent physical standards that it hypothesizes are necessary to accomplish the state's academic standards. This highly-centralized approach is not dissimilar to what occurs whenever the state is in charge of the means of production. In the former Soviet Union, it was know as "Gosplan".

Gosplan for School Construction

Under the Gosplan approach to school construction, schools would be at the mercy of a central board that creates, interprets and enforces statewide facility standards.

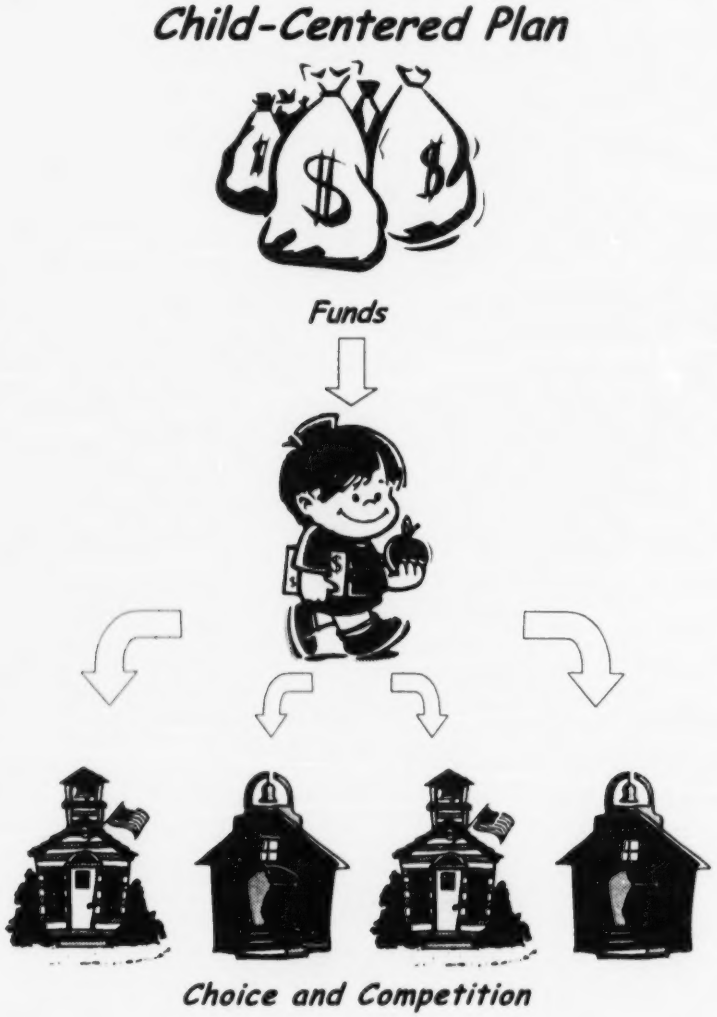
This central board would make decisions related to approving cures for existing deficiencies, inspecting facilities, certifying plans for facilities, and approving student projections, among other responsibilities. It may not be long before this central board is deciding the appropriateness of carpet thickness, number of computer terminals per room, composition of ceiling tiles, number of lockers, and sizes and shapes of classroom windows. This board would then somehow attempt to relate these specifications to the attainment of academic standards. Because so little is actually known about this subject, this board would be a sitting duck for special interest groups. The centralized approach would look something like this:



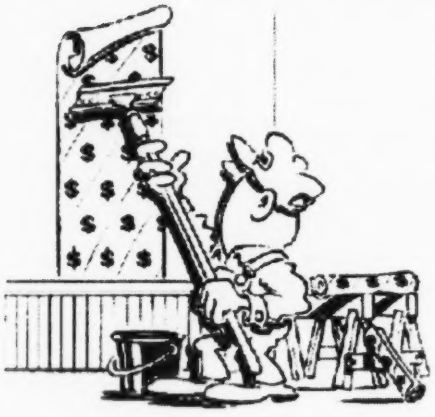
Under the Gosplan approach to school construction, funds are allocated by means of delay. School operators stand in line while special interest groups compete for influence before a central board that tries to outguess the market. Construction costs get bloated and education quality is lost in the shuffle.

The Market Method for School Construction

The alternative to Gosplan for school construction is the market method. Under the market method, the state acknowledges that there are myriad physical arrangements under which students can achieve the state's academic standards. The role of the state would be to provide an adequate dollar amount, then allow local school operators to do the rest. This approach, which we refer to as the Child-Centered Plan, would look like the following:



Under the Child-Centered Plan, decisions about how, where, and what type of schools to build would be left up to school operators. Because schools would only be built when there is a true market demand, educational quality would take center stage and because construction standard setting would be decentralized, construction costs are likely to be lower.



Establishing a Dollar Standard

It seems to us that the most sensible way to establish an appropriate dollar standard is to determine what the minimum amount of funding per student above operational funding is necessary to induce sufficient entry into the educational market. In other words, what revenue amount, or "facility premium," is necessary to entice school operators to build and operate public schools at levels sufficient to take care of all their new student growth. We can assume that these school operators know the state's academic standards, and are willing to build and operate schools in which the academic standards can be achieved.

We have two models to consider when determining the minimum facility premium: school districts and charter operations. School districts, we argue, have had little incentive to control building costs, as demonstrated by the excesses observed throughout the state, ranging from domed football stadiums, to copper ceilings in auditoriums, to custom mall-style atriums. The lack of spending discipline is the result of perverse incentives, such as low turnout elections with low visibility, and a mismatch between business and homeowner tax rates. For these reasons, we determined that charter schools offer a more appropriate model for establishing a minimum facility premium.

Recognizing that many charter schools in Arizona currently use temporary buildings or rented facilities, we looked only at permanent, multi-site charter operations. We realize that any dollar amount we establish will be greater than the point at which some school operators are willing to enter Arizona's market. Charter schools currently receive about $350 per student for capital purposes, and Arizona has already experienced enormous market entry. This is because charter schools, like most private entities, consider total revenue when considering entry, and many have been willing to spend a portion of their "operations" funding to build facilities. In most Arizona public schools, however, the opposite trend is occurring. Increasingly, funding earmarked for "capital" is finding its way into "operations."

In order to get a rough measure of the minimum facility premium without actually estimating a supply function for charter schools in Arizona, we surveyed nine well-established and respected multi-site charter school operations to determine how much money is typically spent on capital needs. We then amortized this amount over ten years at interest rates of 5 and 10 percent *(see table below)*. From the averages, knowing that interest rates for charter school start-ups are closer to 10 percent, we settled on an upper-end rounded number of $650. This is our estimate of the minimum facility premium.

Expenditures & Facility Usage by Charter Schools

CHARTER DESCRIPTION	AVERAGE DOLLARS PER SQUARE FOOT	AVERAGE SQUARE FEET PER STUDENT	AVERAGE BUILDING COST PER STUDENT	ANNUAL PER PUPIL CAPITAL AMOUNT AT 10%*	ANNUAL PER PUPIL CAPITAL AMOUNT AT 5%*
For-profit, K-8 charter with multiple sites	50	38	1900	309.22	246.06
For profit, K-12 charter with multiple sites	80	83.33	6666.4	1084.97	863.36
For profit, K-12 charter with multiple sites	47	40	1880	305.96	243.47
For-profit, K-12 charter with multiple sites	69	50	3450	561.47	446.79
For-profit, K-8 charter with multiple sites	80.25	40	3210	522.41	415.71
For-profit, 6-12 charter with multiple sites	26	40	1040	169.3	134.69
For-profit, K-12 charter with multiple sites	60	85	5100	829.3	660.5
For-profit, K-12 charter with multiple site	80	86	6880	1119.7	890.99
Non-profit, K-8 charter with multiple sites	75	85	6375	1037.5	825.59
AVERAGE	**63.03**	**60.81**	**4055.71**	**659.98**	**525.24**

*Assuming that a school pays over a ten year period of time at rates of 10 and 5 percent.

Per-Pupil Funding in the Real World

The Name's Bond, Revenue Bond

One of the most enduring myths of public education is that the only way to finance public school construction is through general obligation bonds. We are led to believe that schools cannot possibly build facilities based on a revenue stream. If you find yourself believing this, you might want to cast a wary glance around your neighborhood. Did the Albertson's around the corner put a lien on your property to build its store? Nope. Did the new bagel shop down the street issue general obligation bonds to buy its ovens? No, these businesses built their facilities based on anticipated revenue.

Those who think that the education industry is somehow different in this respect should look at higher education. Universities build facilities based on anticipated enrollment, as do charter school operators. If charter school operators can build new schools under this model, school districts should be able to do so as well. In fact, most school districts will be able to maintain existing facilities, and build new schools when necessary, without going into debt at all.

If revenue from 500 new students had to pay for a school costing $4 million ($800/square foot, 100 square feet/ child, 500 students) then in effect, each student must pay for $8,000 worth of building capital. At 5 percent interest on tax-free revenue bonds, the district would be able to borrow $8,000 per child if the district could afford to pay $1,036 per child, per year for ten years. Since our recommended per student capital allotment is $650 per year, they will only be able to issue revenue bonds at $5,000 per student. Thus, the district will need to either build less expensive schools, build larger schools or use the capital allocation from the existing student base. In the example just provided, the capital allocations for 500 students could support a school costing $2.5 million , a $4 million school could be built from the revenues of 800 students. In a district with other students, the revenues of 2,300 additional students would allow the district to carry $8,000 per student in revenue bonds.

But, It'll Never Work in Gilbert, Right?

In fact, virtually every existing school district in Arizona will be able to build and maintain schools with a per pupil capital amount of $650 annually, without having to dip into operations funding. Based on the capital cost, reimbursement implied by our entry model ($650), if each student is allocated 75 square feet at a cost of $65.00 per square foot for construction, a public school operation would require funding from 6.6 existing students to pay for every new student. In other words, an operation could grow by 15 percent and still have the funds needed for construction. The growth rate that can be sustained would be limited by higher construction costs, the allocation of more square feet per student, or if part of the capital allocation is used for maintenance and repair of existing buildings.

Few traditional school districts in Arizona grow or are likely to grow at more than 15 percent per year (although individual charter school operations have been growing by up to 100 percent per year and have managed to fund construction through existing revenue). "Rapidly growing districts" have been defined as those traditional districts with growth exceeding 5 percent per year. For instance, Gilbert, which has been the often-used example of rapid growth, expects to grow at 8 percent per year during the next few years and therefore is a "hyper-growth district."

We identified only 20 traditional school districts that grew by more than 15 percent per year between 1994 and 1997. These districts included only 14,653 students, or under 2 percent of the total public school population. Moreover, 13 of these districts had under 200 students in 1997, so their high growth rates are a function of starting with such a low base, rather than adding a large number of students.

How Does the Per Pupil Allocation Work?

To help determine whether an annual per pupil capital allocation of $650 is feasible, we constructed hypothetical scenarios with different sized traditional school districts (500; 5,000; and 25,000 students) growing at an annual rate of 6 percent and 0.5 percent. Nearly every scenario enabled the district to fund required new schools when needed *out of cash available* from the annual $650 per pupil allocation, whether we assumed the growth was at the elementary or secondary level. (We assumed a new elementary school was required for each additional 500 students, and a new high school for each 1,000 new students in small districts, and for each 1,250 new students in medium districts and for each 1,500 new students in large districts.) Elementary schools cost $4 million, and high school costs ranged from $12 million to $15 million depending on number of students served.

HIGH SCHOOL DISTRICT SCENARIOS

	Small High Growth		Medium High Growth		Large High Growth	
	Number of students at growth rate of 6%	Cumulative Net Cash Flow	Number of students at growth rate of 6%	Cumulative Net Cash Flow	Number of students at growth rate of 6%	Cumulative Net Cash Flow
1998	500	225,000	5,000	2,250,000	25,000	11,250,000
1999	530	563,500	5,300	5,635,000	* 26,500	13,175,000
2000	562	922,310	5,618	9,223,100	* 28,090	16,115,500
2001	596	1,302,649	5,955	13,026,486	* 29,775	20,132,430
2002	631	1,705,808	* 6,312	2,058,075	* 31,562	25,290,376
2003	669	2,133,156	6,691	6,331,560	* 33,456	31,657,798
2004	709	2,586,145	7,093	10,861,453	* 35,463	39,307,266
2005	752	3,066,314	* 7,518	663,140	* 37,591	48,315,702
2006	797	3,575,293	7,969	5,752,929	* 39,846	58,764,644
2007	845	4,114,810	8,447	11,148,105	* 42,237	70,740,523
2008	895	4,686,699	* 8,954	1,866,991	** 44,771	69,334,954

	Small Low Growth		Medium Low Growth		Large Low Growth	
	Number of students at growth rate of .5%	Cumulative Net Cash Flow	Number of students at growth rate of .5%	Cumulative Net Cash Flow	Number of students at growth rate of .5%	Cumulative Net Cash Flow
1998	500	225,000	5,000	2,250,000	25,000	11,250,000
1999	503	551,125	5,025	5,511,250	25,125	27,556,250
2000	505	878,881	5,050	8,788,806	25,251	43,944,031
2001	508	1,208,275	5,075	12,082,750	25,377	60,413,751
2002	510	1,539,316	5,101	15,393,164	25,504	76,965,820
2003	513	1,872,013	5,126	18,720,130	25,631	93,600,649
2004	515	2,206,373	5,152	22,063,731	25,759	110,318,653
2005	518	2,542,405	5,178	25,424,049	25,888	127,120,246
2006	520	2,880,117	5,204	28,801,169	26,018	144,005,847
2007	523	3,219,518	5,230	32,195,175	26,148	160,975,876
2008	526	3,560,615	5,256	35,606,151	26,279	178,030,756

Assumptions:

- Cumulative net cash flow represents an annual per pupil allocation of $650, minus $200 per pupil annually for maintenance.
- Building costs are subtracted from cumulative net cash flow as expended.
- Elementary schools cost $4 million and high schools cost between $12 and $15 million based on number of students.
- Elementary schools accommodate 500 students.
- High schools accommodate 1,000 students in small districts, 1,250 in medium districts and 1,500 in large districts.
- Schools are built when the district adds 500 elementary or 1000 high school students.

* One school was built this year.
** Two schools were built this year.
*** Three schools were built this year.
**** Four schools were built this year.
***** Five schools were built this year.

ELEMENTARY SCHOOL DISTRICT SCENARIOS

	Small High Growth		Medium High Growth		Large High Growth	
	Number of students at growth rate of 6%	Cumulative Net Cash Flow	Number of students at growth rate of 6%	Cumulative Net Cash Flow	Number of students at growth rate of 6%	Cumulative Net Cash Flow
1998	500	225,000	5,000	2,250,000	25,000	11,250,000
1999	530	563,500	5,300	5,635,000	*** 26,500	16,175,000
2000	562	922,310	* 5,618	5,223,100	*** 28,090	22,115,500
2001	596	1,302,649	* 5,955	5,026,486	*** 29,775	29,132,430
2002	631	1,705,808	6,312	9,058,075	*** 31,562	37,290,376
2003	669	2,133,156	* 6,691	9,331,560	**** 33,456	42,657,798
2004	709	2,586,145	* 7,093	9,861,453	**** 35,463	49,307,266
2005	752	3,066,314	* 7,518	10,663,140	**** 37,591	57,315,702
2006	797	3,575,293	7,969	15,752,929	**** 39,846	66,764,644
2007	845	4,114,810	** 8,447	13,148,105	***** 42,237	73,740,523
2008	895	4,686,699	*8,954	14,866,991	***** 44,771	82,334,954

	Small Low Growth		Medium Low Growth		Large Low Growth	
	Number of students at growth rate of .5%	Cumulative Net Cash Flow	Number of students at growth rate of .5%	Cumulative Net Cash Flow	Number of students at growth rate of .5%	Cumulative Net Cash Flow
1998	500	225,000	5,000	2,250,000	25,000	11,250,000
1999	503	551,125	5,025	5,511,250	25,125	27,556,250
2000	505	878,881	5,050	8,788,806	25,251	43,944,031
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2006	520	2,880,117	5,204	28,801,169	26,018	144,005,847
2007	523	3,219,518	5,230	32,195,175	26,148	160,975,876
2008	526	3,560,615	5,256	35,606,151	26,279	178,030,756

Assumptions:

- Cumulative net cash flow represents an annual per pupil allocation of $650, minus $200 per pupil annually for maintenance.
- Building costs are subtracted from cumulative net cash flow as expended.
- Elementary schools cost $4 million and high schools cost between $12 and $15 million based on number of students.
- Elementary schools accommodate 500 students.
- High schools accommodate 1,000 students in small districts, 1,250 in medium districts and 1,500 in large districts.
- Schools are built when the district adds 500 elementary or 1000 high school students.

* One school was built this year.
** Two schools were built this year.
*** Three schools were built this year.
**** Four schools were built this year.
***** Five schools were built this year.

We then created models to examine specific district scenarios based on a per pupil allocation of $650 per student for capital. Similar to the generic district scenarios, we subtracted $200 per student per year for maintenance, and the money needed to build schools is subtracted from cumulative net cash column each year. We surveyed districts that are experiencing high growth (or even hyper-growth), those with stable student populations, a large unified district, an elementary district and a rural high school district. We asked district personnel to provide us the data to enable us to run the models. We asked districts:

What is your projected project growth for the next 10-15 years?
What do you spend to build a high school, middle school or elementary school?
How many students are accommodated by each of your schools?

Although we do not endorse $38 million high schools, nor do we believe many of these school districts will sustain their projected growth, we utilized the numbers the districts provided. We assumed these districts are meeting their current needs with existing facilities or have bonded and are in the process of building schools to accommodate current needs.

Most districts can build schools on a pay-as-you-go basis. Dysart and Gilbert experience brief periods of debt, but recover within a couple years. In the intermediate years, they could literally take out a bank loan secured on the basis of known revenue based on student enrollment one and two years hence. If all of the student-based revenue in those two years were devoted to paying off the loan, they would be back in a positive cash flow situation two years after going into debt. A more typical experience is demonstrated by Peoria, Yuma UHS and Osborne, which never go into debt. Higley goes into debt in 1999 and will not recover for several years, and as mentioned earlier, Higley will need to secure alternative funding to build schools in any funding scenario because of the high growth rate and small student base.

SPECIFIC DISTRICT SCENARIOS

	DYSART UNIFIED SCHOOL DISTRICT		PEORIA UNIFIED SCHOOL DISTRICT		YUMA UNION HIGH SCHOOL DISTRICT	
	Total Students	Cumulative Net Cash Flow	Total Students	Cumulative Net Cash Flow	Total Students	Cumulative Net Cash Flow
1998	4,451	2,93,150	29,273	6,172,850	7,118	3,203,100
1999	5,030	6,162,410	30,590	18,792,950	7,175	7,855,425
2000	5,683	** 3,856,673	31,966	32,295,650	7,232	12,544,968
2001	6,422	* 2,081,190	33,245	* 24,649,100	7,290	17,272,028
2002	7,257	* 898,395	34,575	39,856,850	7,349	22,036,905
2003	8,201	* 378,836	35,958	55,952,950	7,407	26,839,899
2004	9,267	* 602,235	37,396	72,972,750	7,467	31,681,319
2005	10,471	* 1,658,676	38,892	90,953,350	7,526	36,561,469
2006	11,833	** (1,350,047)	40,448	* 87,933,206	7,587	41,480,661
2007	13,371	** (3,308,903)	42,066	107,952,256	7,647	* 16,439,206

	GILBERT UNIFIED SCHOOL DISTRICT		HIGLEY ELEMENTARY SCHOOL DISTRICT		OSBORNE ELEMENTARY SCHOOL DISTRICT	
	Total Students	Cumulative Net Cash Flow	Total Students	Cumulative Net Cash Flow	Total Students	Cumulative Net Cash Flow
1998	16,823	7,570,350	246	* 253,700	3,918	1,763,100
1999	18,169	19,110,928	846	* (3,316,400)	3,996	4,345,062
2000	19,622	* 24,374,752	1,446	* (6,496,500)	4,076	6,978,663
2001	21,192	* 14,635,682	2,046	* (9,286,600)	4,158	9,664,937
2002	22,888	* (16,026,513)	2,646	* (11,686,700)	4,241	12,404,935
2003	24,719	(325,684)	3,246	* (13,696,800)	4,326	15,199,734
2004	26,696	* 9,431,211	3,846	* (15,316,900)	4,412	18,050,429
2005	28,832	* 4,544,658	4,446	* (16,547,000)	4,501	20,958,137
2006	31,138	* (20,876,819)	5,046	* (17,387,100)	4,591	23,924,000
2007	33,629	483,985	5,646	* (17,837,000)	4,682	* 17,949,180

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As one can see looking at the above tables, the only situation in which a traditional school district could not "pay as it goes" is when a district has very few students initially, and adds a multiple of that original number. As mentioned previously, such a district is Higley which currently has 246 students but projects that it will add 9,000 students over the next 15 years. Higley will not be able to pay for its needed new schools from its capital revenue stream or by issuing revenue bonds because of this small base, and a growth rate that is a multiple of the base. However, Higley is clearly the exception and is also not able to build schools to accommodate growth within the current capital finance system. It should be noted that Higley will have an easier time paying for necessary buildings if some of the needs created by this rapid and large growth are met by charter schools, which is likely to be the case.

We also developed several models for specific districts which have traditionally been considered low-wealth or those that have buildings in need of immediate repair, renovation, or replacement. We utilized the MGT database to determine the average age of nonportable units and the total gross square feet of nonportable units per district. We figured, conservatively, that the average life of a school building is 40 years. We then calculated percent of life already used in nonportable units by district. To determine enrollment growth in districts, we figured the average percent change in average daily membership (ADM) over the past three years by district, and factored this percent change over each of the next 10 years (although it seems unlikely that some of the growth experienced by these districts would be sustained over 10 years).

ASSUMPTIONS FOR DISTRICT MODELS

	Percent Change in ADM 1995-1997	Total Gross SQFT Nonportable Units	Avg. Age of Nonportable Units	SQ FT Per Child	Percent of Nonportable Units Used
Ash Fork Unif.	-0.09	45,152	31.4	217.62	78.5
Roosevelt Elem.	1.43	769,885	30.24	70.18	75.6
Isaac Elem.	5.47	400,563	27.76	55.69	69.4
Seligman Unif.	2.75	78,036	27.45	416.55	68.6
Paradise Valley Unif.	2.95	3,298,153	24.07	104.33	60.2
Littleton Elem.	2.77	111,884	23.77	83.62	59.4
St. David Elem.	4.95	70,054	18.0	161.38	45
Alhambra Elem.	9.89	717,607	17.97	65.51	44.9

We utilized these assumptions when calculating when and how many schools should be built in each district. We assumed that elementary schools accommodate 500 students and are built for $4 million. We applied these assumptions to all districts except Paradise Valley Unified with the understanding that Seligman and Ash Fork Unified Districts have small populations and would not have the ability or desire to build a high school to accommodate 2,000 students. In Paradise Valley Unified we assumed the average school accommodates 1,000 students and costs $10 million. This takes into account the different grade levels served and the varying sizes of buildings.

We gave several districts at least one new school immediately because of the age of existing buildings: Ash Fork, Roosevelt and Isaac. We also considered age of existing buildings during the ten year period, and gave each district except Seligman additional schools. A few districts appeared to lack adequate space for existing students, and we gave those districts schools immediately: Roosevelt, Isaac and Alhambra. When we projected ADM, several districts needed additional schools to accommodate growth: Roosevelt, Isaac, Alhambra, Paradise Valley, Littleton and St. David.

Overall, most of the districts would be able to build the needed schools on a pay-as-you-go basis. Most districts with particularly large student bases are able to accommodate enormous needs without going into debt. Isaac and Roosevelt experience a debt in the first year because of the immediate nature of their needs, but they recover by the following year. Ash Fork, Seligman and St. David carry significant debt each time they need to build schools because of their small student bases. These districts would need building assistance from another source, such as a facility board. It is again important to note that these districts are unable to meet their needs under the current funding system.

Ash Fork Unif.	ADM	REASONS FOR NEW SCHOOLS			ANNUAL REVENUE FOR CAPITAL/ MAINT.	CUMULATIVE NET CASH FLOW
		Lack of space for existing students	Age of existing buildings	Addition of students		
1998	207		1		134,748	(3,865,252)
1999	205				133,536	(3,731,716)
2000	204				132,334	(3,599,382)
2001	202				131,143	(3,468,239)
2002	200				129,963	(3,338,276)
2003	198				128,792	(3,208,484)
2004	196				127,634	(3,081,850)
2005	195				126,485	(2,955,365)
2006	193				125,347	(2,830,018)
2007	191				124,217	(2,705,799)
2008	189				123,101	(2,582,699)

Roosevelt Elem.	ADM	REASONS FOR NEW SCHOOLS			ANNUAL REVENUE FOR CAPITAL/ MAINT.	CUMULATIVE NET CASH FLOW
		Lack of space for existing students	Age of existing buildings	Addition of students		
1998	11,127	1	1		7,232,680	(767,320)
1999	11,286				7,336,108	6,568,788
2000	11,448		1		7,441,015	10,009,802
2001	11,611				7,547,421	17,557,223
2002	11,777			1	7,655,349	21,212,571
2003	11,946				7,764,821	28,977,392
2004	12,117		1		7,875,857	32,853,249
2005	12,290			1	7,988,482	36,841,731
2006	12,467				8,102,718	44,944,448
2007	12,644				8,218,586	53,163,034
2008	12,825		1	1	8,336,112	53,499,146

Isaac Elem.	ADM	REASONS FOR NEW SCHOOLS			ANNUAL REVENUE FOR CAPITAL/ MAINT.	CUMULATIVE NET CASH FLOW
		Lack of space for existing students	Age of existing buildings	Addition of students		
1998	7,586	1	1		4,931,170	(3,068,830)
1999	8,001				5,200,905	2,132,074
2000	8,439			1	5,485,394	3,617,469
2001	8,901		1		5,785,445	5,402,914
2002	9,388			1	6,101,909	7,504,823
2003	9,901			1	6,435,684	9,940,506
2004	10,443		1	1	6,787,705	8,728,222
2005	11,014			1	7,159,003	11,887,225
2006	11,616			1	7,550,601	15,437,826
2007	12,252			1	7,963,619	19,401,445
2008	12,923		1	1	8,399,229	23,800,674

Seligman Unif.	ADM	REASONS FOR NEW SCHOOLS			ANNUAL REVENUE FOR CAPITAL/ MAINT.	CUMULATIVE NET CASH FLOW
		Lack of space for existing students	Age of existing buildings	Addition of students		
1998	192				125,120	125,120
1999	198				128,560	253,680
2000	203				132,096	385,776
2001	209				135,729	521,505
2002	215				139,461	660,966
2003	220	1			143,296	(3,195,738)
2004	227				147,267	(3,048,501)
2005	233				151,286	(2,897,216)
2006	239				155,446	(2,741,769)
2007	246				159,741	(2,582,048)
2008	252				164,113	(2,417,934)

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Littleton Elem.	ADM	REASONS FOR NEW SCHOOLS			ANNUAL REVENUE FOR CAPITAL/ MAINT.	CUMULATIVE NET CASH FLOW
		Lack of space for existing students	Age of existing buildings	Addition of students		
1998	1,375				893,791	893,761
1999	1,413				918,549	1,812,339
2000	1,452				943,992	2,756,332
2001	1,493		1		970,141	(273,527)
2002	1,534				997,014	723,487
2003	1,576				1,024,631	1,748,118
2004	1,620				1,053,014	2,801,132
2005	1,665				1,082,182	3,883,314
2006	1,711				1,112,158	4,995,472
2007	1,758		1		1,142,965	2,138,438
2008	1,807			1	1,174,625	(686,937)

St. David Unif.	ADM	REASONS FOR NEW SCHOOLS			ANNUAL REVENUE FOR CAPITAL/ MAINT.	CUMULATIVE NET CASH FLOW
		Lack of space for existing students	Age of existing buildings	Addition of students		
1998	456				296,125	296,125
1999	478				310,784	606,909
2000	502				326,167	933,076
2001	527				342,313	1,275,389
2002	553				359,257	1,634,646
2003	580				377,040	2,011,686
2004	609				395,704	2,407,390
2005	639				415,291	2,822,681
2006	671		1		435,848	(741,471)
2007	704				457,423	(284,048)
2008	739			1	480,065	(3,803,983)

Alhambra Elem.	ADM	REASONS FOR NEW SCHOOLS			ANNUAL REVENUE FOR CAPITAL/ MAINT.	CUMULATIVE NET CASH FLOW
		Lack of space for existing students	Age of existing buildings	Addition of students		
1998	12,037	1			7,824,264	3,824,264
1999	13,228	1		2	8,598,434	422,347
2000	14,536			2	9,448,434	1,870,781
2001	15,974			2	10,382,884	4,253,664
2002	17,553			2	11,409,751	7,663,415
2003	19,290		1	3	12,538,175	4,201,591
2004	21,197			3	13,778,201	5,979,792
2005	23,294			3	15,140,865	9,120,647
2006	25,597		1	4	16,638,300	5,758,953
2007	28,129			4	18,283,824	8,042,777
2008	30,911			4	20,092,064	12,134,872

Paradise Valley Unif.	ADM	REASONS FOR NEW SCHOOLS			ANNUAL REVENUE FOR CAPITAL/ MAINT.	CUMULATIVE NET CASH FLOW
		Lack of space for existing students	Age of existing buildings	Addition of students		
1998	32,544				21,153,882	21,153,882
1999	33,505			1	21,777,922	32,931,804
2000	34,493			1	22,420,371	45,352,175
2001	35,510			1	23,081,772	58,433,947
2002	36,558		1	1	23,762,684	62,196,631
2003	37,636			1	24,463,683	7,660,314
2004	38,747			2	25,185,362	81,845,676
2005	39,890			1	25,928,330	97,774,005
2006	41,066		1	1	26,693,216	104,467,221
2007	42,278			1	27,480,656	121,947,887
2008	43,525			1	28,291,345	140,239,232

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To Infinity and Beyond!

No Local Controlling Legal Authority

The educational equivalent of learning there is no Tooth Fairy or Easter Bunny, is waking up to the realization that the public education establishment doesn't really care about equal education funding. In fact, existing school districts, by and large, are quite hostile to the notion. They want equal funding, just as long as they can go "above and beyond" what is equal. School districts got a boost from the latest Supreme Court ruling, which noted that districts may go above what the state provides without running afoul of the "general and uniform" requirement.

This argument provides an excellent example of old thinking in a new environment. In the past, school districts were the mechanism through which local control was exercised. It used to be that every public school was part of a school district, and every school district was surrounded by an attendance boundary. With the exception of districts under desegregation orders, today's open enrollment policy allows students to transfer from district to district at will. Thus, when a district attracts students from elsewhere, the importing district's taxpayers bear the capital costs of educating those students while the exporting district's taxpayers get a freebie.

If the notion that "district control means local control" has been made a bit messy as a result of open enrollment, it has been obliterated as a consequence of charter schools. In some small school districts in Arizona today, charter schools educate as much as 25 percent of the students within the local district's boundaries. Within a few years, there are likely to be numerous examples of charter schools educating a majority of students within a given district. In such cases, should districts be allowed to levy a tax when most children are in schools that will not benefit from the revenue generated from the tax?

As noted previously, school districts are no longer the sole providers of public education. In fact, of the more than 300 new public schools opened in the past two years, fewer than one in five were built by school districts. The rest were charter schools. If the current trend continues, school districts may quickly assume the role of the "school builder of last resort."

Above and Beyond, Voluntary Style

Because the district is no longer a proxy for local control, allowing the district to levy a tax doesn't make sense. This doesn't mean that local communities shouldn't have the right to go "above and beyond" what the state provides. It just means that they will have to do it on a voluntary basis. There are many ways this can be done. Many public schools, both those operated by districts and under charters, have established foundations. Many have formed partnerships with businesses. The state could make it easier for local schools to raise "above and beyond" funding by offering tax credits to individuals and businesses who voluntarily contribute.

Conclusion

Ever since the school finance debate began in earnest with the *Roosevelt v. Bishop* decision four years ago, we have advocated a statewide dollar amount that would travel with each child to the school of his/her choice. We believe that per-child capital funding, coupled with moves already underway to foster choice and competition are the only way that parents can regain control over their children's education.

The school finance debate currently focuses on the adequacy of facilities and central planning. We think the discussion should focus on funding. There are many ways to arrange a physical plant to meet academic standards and it is difficult to imagine that a state-level board could do an adequate job of enumerating all of these possibilities. We suggest a method for deriving a dollar standard that circumvents these problems. It turns out that our dollar standard of $650 per pupil is a feasible method for financing buildings and renovations for over 98 percent of Arizona's public school population.

Considering that charter school operators account for the majority of new school construction, any plan not based on per-pupil allocations will be irrelevant within a few years. We show that moving to a per-pupil funding system now addresses the issues raised by *Roosevelt v. Bishop* and provides a funding system for the 21st century.

Not so Typical Answers to Typically Asked Questions

How will fast-growing districts be able to build schools under this plan?

Nearly all districts will be able to purchase needed buildings on a pay-as-you-go basis. Some districts will have to take out one- or two-year loans in order to purchase schools. These loans will be secured by known per student allocations in the following year or two. A few districts will need to issue revenue bonds to meet their needs and the recommended per student capital allocation will be utilized to pay off these bonds in a few years.

How do districts that are small, and experiencing hyper-growth, build enough schools under this plan?

Small districts experiencing hyper-growth will not be able to leverage their per student capital allotment to build needed schools. This is true under ANY plan and these districts will essentially be "wards of the state." However, there are fewer than 20 districts in this situation statewide and they are very small. There will need to be a state-level entity from which these districts receive assistance to build schools. It should be noted that these high-growth districts are likely to attract charter schools which could solve much of this problem.

What about the districts that are not experiencing growth and do not have immediate building needs? These districts will receive millions of dollars and do not need new buildings. What will they do with this money?

Districts that do not have immediate building needs are more likely to have outstanding bonds because they have already built their schools. These districts could use their per student capital allotment to pay off their debt. These districts could also use their per student capital allotment to maintain, renovate, repair and expand their existing buildings which may be old or too cramped.

How do low-wealth districts with aging buildings, or perhaps inadequate buildings, meet their needs under this plan?

Most low-wealth districts will be able to build, re-build or refurbish schools on a pay-as-you-go basis from the per pupil capital allotment. A few small districts may need to borrow short term, issue revenue bonds or seek assistance from the state-level entity.

How can we be sure that districts will meet facility standards?

There are an infinite number of acceptable sets of facility standards to meet student needs. There is little or no evidence that any specific facility configuration will guarantee or prevent students from achieving their educational goals. Therefore the only way that

we can be certain that facilities are adequate, given the other inputs into the process, is to look at student learning and achievement. It is impossible for an elected or appointed body to agree on facility standards that would be optimal for every school. You would be left with schools that look like the proverbial camel.

How did you determine a dollar standard?

Charter schools are able to use whatever capital facilities they want as long as they meet the State's academic standards. By looking at multi-site, established charter school operations, we determined that they spend less than $650 per student on capital. We then took very generous space, cost and school size figures, calculated how much it would cost to build a school using these parameters, and then determined what allocation per student would allow districts to pay for needed schools.

Doesn't this plan erode local control?

This plan gives public school districts actual dollars based on the number of students, and they may spend their capital money any way they want as long as they meet the State's academic standards. This is the purist form of local control. Since parents can move their children from one school to another, and take their money with them, parents now exert control over their local schools. Currently, rather than local control, decisions are made at the district level which is a long distance from individual family decision-making, particularly in large districts. The proposal to have a state-level board decide on local capital projects takes decision-making even further from pure local control and from the parent decision-making process.

How will the state afford this plan? It is too expensive.

A per pupil capital allocation of $650 per student will cost approximately $350 million annually. This is less than the current amount being spent to service existing debt (nearly $500 million per year) over time, as the bonds are paid off.

Aren't we just adding a new tax to an already burdensome tax system?

This plan could be funded by dedicating a portion of the existing sales tax to fund school facilities. It also proposes to phase-out the secondary property tax now used for school construction once districts have retired existing debt.

So That's What it Means

You'll hear these words & acronyms tossed around in discussions of education finance.

ADM	Average daily membership (defined in legislation) is the average adjusted enrollment through the first 100 days of the current school year. This is the number used for most budget calculations.
Assessment Ratios	In Arizona, property is classified by its use for purposes of taxation. Each class is given an assessment ratio, which range from 1% to 28%. The ratio is applied to both primary and secondary property values. Residential property is assessed at 10% while commercial and industrial property is assessed at 25%.
Basic Aid	See equalization assistance.
Capital	Capital expenditures are those that fund fixed assets such as facilities and equipment, as well as renovation, major maintenance, and land for school construction.
Capital Appreciation Bonds	CABS are issued at a discounted face value. The compounded interest payments are deferred for years and do not count against state debt limits. By refinancing existing bond obligations with CABs, districts are able to borrow more than with general obligation bonds.
Career Ladder	An adjustment to the RCL – as teachers' advance on the ladder, by improving their skills or increasing their responsibilities, they get pay increases. The state funds 2/3 of the program & the balance is funded locally.
Charter School	Charter Schools are independent public schools. They are publicly funded but privately operated. Charter Schools receive the same M & O funding as district schools, but they cannot access revenue through bonding.
CLRL	Capital levy revenue limit – for capital expenditures only. The CLRL is a per student dollar amount with adjustments for rapid growth districts.
CORL	Capital outlay revenue limit – originally meant to be state assistance for books, equipment, and supplies, the state now allows this money to be transferred to the M & O budget. The amount is based on a district's weighted student count. The amount per student is determined by district size and grade level. There are 4 exceptions to this limit. A district can exceed the CORL with voter approval.
County Primary Tax	Each county, by legislative mandate, must levy this tax (currently $0.53) to fund the county equalization .
Debt Service	Principal and interest payments on bonds.
Desegregation Expenditures	These expenditures are any made in an effort to comply with a federal court order or agreement with the Office of Civil Rights. These expenditures are outside the RCL and have provided an easy means for desegregation districts to increase their spending without voter approval.

Endowment Trust Fund Earnings	The state of Arizona holds in trust 9.4 million acres of land, which generates revenue from interest and lease payments. Schools (K-12) are the largest beneficiaries with about 86% of the trust land assigned to them. In fiscal year 1997, they received about $110 million from the Trust Fund.
Equalization Assistance	The purpose of equalization assistance (also called basic aid) is to create a system that keeps each district's tax rate and per student expenditure roughly equal. A formula determines how much each district can spend and how much money they can raise through local property tax. Through equalization assistance the state provides the difference between the two amounts.
Equalization Base	A school's expenditure capacity. The RCL, CORL and the CLRL combine to determine the total amount districts can spend per student.
FF&E	Furniture, fixtures and equipment. These items are not included in the square foot cost for school construction.
General and Uniform	A constitutional requirement to fund an adequate public school system that meets a standard of equality. This phrase, "general and uniform," is the basis for the current Supreme Court ruling that our current system of capital finance is unconstitutional.
General Obligation Bonds	G.O. bonds are secured by real property and are liens on that property. They are the most common instrument used by districts to finance construction and renovation. In Arizona, elementary and high school districts debt limit is 15% of the assessed value. It is 30% for unified districts.
Homeowner Rebate	Additional aid from that state to school districts. This rebate subsidizes homeowners' school primary taxes. The state pays 35% of the homeowner's primary tax, up to $500.
Levy	Imposition of a tax or that amount taxed
Maintenance & Operations	The day to day costs of education, including teachers, administrators, other staff, maintenance, insurance, utilities, etc.
Net Assessed Value (NAV)	Derived from its full cash value, the net assessed value is the total taxable value of all property within a district. It is determined by multiplying the full cash value of a property by the tax rate as determined by the classification of property. The NAV determines bonding authority for capital needs.
Override	Voter approved actions that raise additional funds over the state limits. M & O overrides can be up 10% of the RCL. An additional 5% override is possible for special programs aimed at improving student performance in grades K – 3.
Primary Tax	Limited values of property that can never exceed the secondary rate. Revenues from the primary tax are used to fund the maintenance and operation budgets of state and local governments.
Qualifying Tax Rate (QTR)	A hypothetical tax rate that determines the amount of equalization assistance a district receives.
RCL	The revenue control limit is the sum of the base support level and the amount allowed by the transportation revenue control limit. The RCL, along with the CORL, establish a district's M & O expenditure limit. There are 4 adjustment and 8 exceptions to the RCL.
Revenue bonds	Bonds which are secured by an income stream.
Secondary Tax	Full cash value (unlimited) of property. The purpose of secondary taxes is to fund such things as bond issues, budget overrides and special districts.

School Capital Equity Fund	A fund which provides eligible districts with money for capital improvements and construction. This fund is administered by the State Board for School Capital Facilities. Distribution of the funds can be in the form of a loan or grant, or a combination of the two. There are a number of eligibility requirements designed to funnel the money to districts that are unable to raise the funds locally.
State Board for School Capital Facilities	A nine member board, (three appointed by the governor, three appointed by the President of the Senate, and three appointed by the Speaker of the House) who prioritize the funding of capital expenditures for school construction. The board is unpaid. The Governor also appoints, on the recommendation of the board, an executive director who along with a staff conducts the day to day operation of the board.
Tax Credit	A tax credit directly reduces total tax liability by the amount of the credit. In contrast, a deduction reduces the amount of taxable income.
Unified District	Unified districts are consolidated districts that encompass all grades, K-12. Other district types are elementary (K-8) and union high school (9-12).
Weights	A feature of Arizona school finance that allows variance in per pupil spending. These weights are assigned a multiplier that provides additional dollars to a district's budget based on special characteristics of either individual students, groups of students or for district characteristics. Group A weights are based on grade level, while Group B weights are based on characteristics ranging from limited English proficiency to severe metal retardation.

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